

Minutes of Meeting
Health Services Council
Project Review Committee-I

DATE: 21 March 2006

TIME: 2:00 PM

LOCATION: Health Policy Forum

ATTENDANCE:

Committee I: Present: Victoria Almeida, Esq, (Vice Chair), Edward F. Almon, John W. Flynn, Robert S.L. Kinder, MD, Richard Lepine, Robert J. Quigley, DC, (Chair), Robert Ricci

Not Present: Joseph V. Centofanti, MD, Robert Whiteside, John Young

Excused Absence: Robert L. Bernstein, John Keimig

Other Members: Present: Larry Ross

Staff: Valentina D. Adamova, Bruce Cryan, Michael K. Dexter, Joseph G. Miller, Esq., Donald C. Williams

Public: (see attached)

1. Call to Order, Approval of Minutes, Conflict of Interest Forms and Time Extension for the Minutes Availability

The meeting was called to order at 2:05 PM. The minutes of 14 and 21 February 2006 and 14 March 2006 Project Review Committee-I meetings were approved as submitted. The Chairman requested a motion for the extension of time for the availability of minutes pursuant to the Open Meetings Act. A motion was made, seconded and passed by seven in favor and none opposed (7-0) that the availability of the minutes for this meeting be extended beyond the time frame provided for under the Open Meetings Act. Those members voting in favor were: Almeida, Almon, Flynn, Kinder, Lepine, Quigley, Ricci.

2. General Order of Business

The first item on the agenda was Westerly Hospital's Change Order Request for a Cost Overrun regarding the 6 June 2001 approval of the Certificate of Need for New Construction of the Emergency Department and Medical and Surgical Nursing Units and Renovation and Reconfiguration of Diagnostic and Ambulatory Services and Establishment of a Diagnostic Cardiac Catheterization Services. Staff noted that additional information received from the hospital was handed out. Staff stated that the hospital was aware of the cost

overrun but did not believe it required a change order request since it was less than 10% of the total capital cost. Staff stated that conditions of approval limited the capital costs to \$18 million and debt financing to \$5.5 million. Staff noted that during a survey with compliance of conditions of approval it was discovered that Westerly Hospital had incurred a cost overrun of \$1.48 million and financed the CON with 54% equity and 46% debt instead of 61% and 39% debt. Staff noted that in addition to \$5.5 million loan the hospital used a line credit as part of its financing plan. Staff stated that due to increase in debt financing and related increase in interest expense, the applicant will need a change to the condition of approval regarding operating costs. Staff noted that Mr. Goulet is serving as legal counsel to the applicant.

Mr. Goulet stated that current President and Chief Financial Officer inherited this situation. He stated that the former President resigned in 2003 and an outside consulting group operated the hospital between October 2003 and July 2004. He introduced Mr. Kinney, President and Ms. LaChance, CFO.

Mr. Kinney stated that in 2003 the hospital experience significant financial issues. He stated that the hospital was managed by outside consulting group and went through different management. He stated that the hospital is doing better and is a quality provider. He stated that it has been hard to reconstruct the record and figure out what happened. It was noted that the project was completed in 2004. The

Chairman requested that the hospital provide information about its endowment. Mr. Kinney discussed the new emergency room and the reasons for the failure of the walk-in clinic.

To the Chairman's question, Mr. Kinney stated the hospital performed 325 diagnostic cardiac catheterizations last year. He stated that the proposed South County Hospital's CON project to establish a diagnostic cardiac catheterization service would negatively impact Westerly's program. He stated that there is no need for another program, there is not enough business to support both.

To a Committee's question, staff noted that besides the cost overrun, it need to be established how this project was financed. Mr. Goulet noted that for short-term cash problems healthcare institution use lines of credit. Discussion ensued about the reimbursement rates in Rhode Island. The Chairman stated that staff would send follow-up questions.

The next item on the agenda was Rhode Island Hospital's Change Order request for a Cost Overrun regarding the 29 October 2002 approval of the Certificate of Need to Upgrade Surgical Services. Staff stated that the hospital is projecting approximately 7% in a cost overrun and requested that the condition of approval regarding capital cost be increased from approximately \$27.7 million to \$29.7 million. Staff stated that the hospital identified the primary cost

drivers as construction and excavation costs and compliance with the state's fire safety codes. Staff noted that the cost overrun will be financed with 100% equity. Staff stated that additionally, the first full year operating expenses are projected to increase to \$2.462 million.

Representatives of the applicant discussed the reasons for the change order request. The applicant stated that they plan on incorporating a larger contingency into future projects. The applicant stated that the cost overrun is about \$1.95 million.

A motion was made, seconded and passed by a vote of seven in favor and none opposed (7-0) to recommend that the change order request be approved. Those members voting in favor of the motion were: Almeida, Almon, Flynn, Kinder, Lepine, Quigley, Ricci.

Ms. Almeida stated for the record that she is recusing herself with respect to the change order request of Rhode Island PET Services, LLC.

The next item on the agenda was Rhode Island PET Services, LLC's Change Order request to change conditions of approval of the 29 June 2002 approval of the Certificate of Need to Provide PET Scanning Services in Rhode Island regarding Memorial Hospital. Staff stated that the applicant is requesting a change order because the proposed site of operations of the mobile PET unit cannot be used to

provide inpatient services. Staff stated that the applicant is requesting that it be allowed to provide only outpatient PET services at the proposed location of 555 Prospect Avenue. Staff reviewed volume and utilization information for Rhode Island PET Services, LLC's operating sites ("RIPET").

Mr. Zubiago, legal counsel to RIPET, stated that the site is ready for operation. He stated that the proposed site at 555 Prospect Avenue, which is about 1 mile away from the hospital, cannot be used to provide inpatient services. He stated that the proposed change order is to request that only outpatient services be provided at that location. He noted that PET it is a primarily outpatient service and that inpatients represent about 1% of all PET services.

The Chairman requested that RIPET provide information and a plan with respect to physician education in Rhode Island.

A motion was made, seconded and passed by a vote of six in favor, none opposed and one recused (6-0-1) to recommend that the change order request be approved. Those members voting in favor of the motion were: Almon, Flynn, Kinder, Lepine, Quigley, Ricci. Almeida recused.

The next item on the agenda was an Update on PET and PET/CT services by the current providers Rhode Island PET Services, LLC

and Rhode Island Hospital. Staff noted that the Committee received information regarding volume, educational components and implementation of PET/CT. Staff noted that based on projected scan volume by RIPET, Roger Williams and St. Joseph Hospital will not meet the scan volumes projected in the CON application. Staff noted that RIPET will be participating in the National Oncologic PET Registry (“NOPR”).

Mr. Zubiago stated that Landmark and South County Hospital are performing well and exceeded expectations since they’ve been operating for the longest time. Mr. Mercurio stated that with regards to Roger Williams Hospital, patients from Veteran’s Administration are in fact being sent to Boston for this service. He noted that these patients were included as coming to Roger Williams Hospital for this service in the original CON. He discussed additional education processes that would contribute to a greater scan volume.

Staff asked why RIPET is not projecting a significant increase in future years due to replacement of the PET scanner with a PET/CT scanner, which based on testimony by other parties before the Committee, was causing Rhode Island patients to seek this service in other states. Mr. Zubiago stated that this was not the testimony of RIPET and he does not believe this is the case. With regards to NOPR, he noted that RIPET has completed the application but that NOPR is not yet operational. Mr. Zubiago stated that NOPR has not been factored into future projections because it is not clear what kind

of an impact it may have. He stated that RIPET employs a marketing person in Rhode Island.

Staff noted that Mr. Zimmerman projected a potential need of about 5,600 scans in Rhode Island and for 2007 providers project performing about 4,200 scans, which is about 25% below 5,600 figure. Staff asked if there are any plans to facilitate an increase in utilization to meet the projected demand. A representation from Rhode Island Hospital stated that there has been significant education in Rhode Island through speakers, lectures and conferences. It was noted that Rhode Island was among the last states to provide PET services and it takes time before utilization increases to national levels. It was noted that PET/CT and NOPR will have some influence, but not significant, on future utilization. The Chairman requested that providers report back to the Department on implementation and staff noted that it would develop a standardized report form.

With regards to Kent County Hospital, Mr. Zubiago stated that a construction contract has been signed. He stated they need to obtain approval from the Office of Facilities Regulation to operate at the proposed site.

There being no further business the meeting was adjourned at 3:45 PM.

Respectfully submitted,

Valentina D. Adamova